

AML Modes: Definition, Development, Validation, and Best Practices

Anti-Money Laundering (AML) practices are built to protect financial institutions from fraudsters trying to clean their illegally sourced money. This activity is known as “money laundering” and financial institutions are becoming increasingly vigilant in trying to detect and prevent instances of money laundering. This is where a complete and secure AML model comes into play.

While AML compliance is a huge priority, members of the financial services have different definitions and ideas about what qualifies as an AML model and what businesses can do to comply with [AML compliance](#). Some companies offer no-code systems while others offer one or more components but not a true model.

Several key regulatory agencies are involved in monitoring that AML regulations get complied with and fulfilled. In the US financial services market, the “Office of the Comptroller of the Currency (OCC), and the Financial Crimes Enforcement Networks (FinCEN) provide guidelines on how to comply with the BSA (Bank Secrecy Act).

Definition of an AML Model

An AML Model is a process or a series of steps to achieve compliance. A good and effective AML model relies on human resources, the latest technologies, and in-house financial rules for compliance.

Combining human expertise with artificial intelligence, or machine learning. You need a quantitative process that gathers and analyzes key data to assess AML risks. Most of the data is collected using a computer, but it is advised to use your human resources to collect data. The AI and machine learning technologies that you use should rely on robust algorithms. These AI-based algorithms can help in the detection of money laundering activities in the initial stages.

Unfortunately, most businesses end up relying on an AML model that doesn't just offer red flags. Incorrect transaction flags can cause you to lose faith in your current AML models.

Types of AML Models

You can use a single AML model to protect yourself from a specific crime. To build a completely secure process, you need to follow the best practices in all areas.

1. Know Your Customer (KYC)

The investment and financial services industry has to follow a series of guidelines known as KYC. KYC requires companies to verify their clients' identities and financial history. FinCEN established minimum standards of [KYC](#) to prevent bad actors from laundering money.

Businesses of all kinds need to make reasonable efforts to detect money laundering activities and terrorist financing by developing a customer risk profile.

2. Transaction Monitoring

Financial institutions and other companies can reduce the flow of money laundering by implementing proper due diligence. Banks are needed to report transactions that are \$10,000 or more. Additionally, banks should also watch out for other suspicious activity and trace the origin of deposits. By relying on transaction monitoring software, banks can continually scan transactions and minimize false positives.

3. Individual Company Protocols

Every business is unique, so are their business needs. Each business needs to build its response in addition to mandatory regulations. Increased holding periods on deposits, better money tracking practices and increased employee awareness can help in controlling money laundering habits.

Developing an AML model

Building a successful AML model is challenging and requires tons of thought, including a series of advanced technologies. For building a successful AML model for your bank, you need to follow these best practices:

1. Determine a Clear Purpose

You should develop a clear and achievable purpose for your AML model. While it's almost impossible to eliminate money laundering, you can set a goal to reduce the flow of laundering. You can target one particular area of criminal activity while trying to reduce false positives.

2. Develop a Strong Methodology

A strong methodology in any department will help that is accurate even when slight changes happen. You need to develop an accurate

system based on the latest technology, risk assessment, and other best practices that deliver results.

3. Establish Model Controls

Your AML Model should have internal control methods that are ideal for your industry and are followed thoroughly. If you don't show clear AML guidelines and processes in place, your results will be unverifiable.

4. Make Sure that Accurate Data is Collected

Data collection should be limited to important areas. More than often, your data sets become too big to control and analyze. Make sure that you get accurate, quality data only. This data will also help in [bank account verification](#), customer identity verification, and so on.

5. Run Tests Before Implementation

One of the most crucial steps in implementation is testing the systems with model inputs before implementing them so you know your model fulfills its purpose. Avoid launching it before you feel confident the model is working perfectly.

6. Implement Ongoing Monitoring

Even the best and most sophisticated models need to be monitored on the regular basis. Before implementing your model, you should have your monitoring process in place.